

Message Text

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ACTION EA-14

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R 040543Z JUN 74

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 3310

INFO AMCONSUL BRISBANE BY POUCH

AMCONSUL MELBOURNE BY POUCH

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CINCPAC FOR POLAD

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TAGS: EGEN, AS

SUBJ: POST-ELECTION PROSPECTS FOR AUSTRALIAN ECONOMIC POLICY

REF: (A) CANBERRA 3263; (B) CANBERRA 2786; (C) CANBERRA 2555;

(D) CANBERRA 2317; (E) CANBERRA 2177; (F) CANBERRA 1352

1. SUMMARY: THE PRIME MINISTER'S MAY 29 VICTORY STATEMENT TENDS TO RE-ENFORCE OUR TENTATIVE JUDGEMENT THAT VICTORIOUS ALP WILL PRESS FORWARD ON ITS UNFINISHED ECONOMIC AGENDA DESPITE REDUCED PARLIAMENTARY MARGIN. BUT WHITLAM'S ABILITY TO PASS NECESSARY LEGISLATION WILL DEPEND PARTLY ON THE STILL UNDECIDED QUESTION OF WHETHER ALP CONTROLS SENATE IN ADDITION TO ITS CONFIRMED CONTROL

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OF LOWER HOUSE. MEANWHILE WITH PASSAGE OF TIME DEVELOPMENTS IN

AUSTRALIAN TRADE BALANCE AND DEEPENING INFLATION MAY INCREASINGLY INFLUENCE DETAILS OF GOA'S ECONOMIC TACTICS. END SUMMARY.

2. WHITLAM'S MAY 29 VICTORY SPEECH REITERATED INTENTION TO PURSUE UNFINISHED AGENDA OF ALP PROGRAMS ADVANCED IN 1973, INCLUDING THOSE REVIEWED IN QUEEN'S SPEECH OPENING PARLIAMENT (REF F) AND WHITLAM'S APRIL 1974 ELECTION POLICY STATEMENT (REF C). SPEECH POINTS TO PROBABLE CONCENTRATION IN NEAR FUTURE ON DOMESTIC ECONOMIC MEASURES INCLUDING NEW ELECTION-STIMULATED EMPHASIS ON COUNTERING INFLATION.

3. DETAILED TACTICS WILL DEPEND GREATLY ON FINAL SENATE OUTCOME. IF ALP WINS SENATE CONTROL PRIME MINISTER IN POSITION TO PUSH LEGISLATION THROUGH PARLIAMENT. BUT IF ALP DOES NOT CONTROL SENATE, JOINT SESSION TECHNIQUE (REF A) IS AVAILABLE IN THE ECONOMIC AREA ONLY FOR PETROLEUM AND MINERALS AUTHORITY BILL, BECAUSE THIS WAS THE ONLY ECONOMIC MEASURE IN LIST OF SENATE-REJECTED LEGISLATION ON WHICH RECENT DOUBLE DISSOLUTION SOUGHT AND GRANTED BY GOVERNOR-GENERAL. IN THAT EVENT, REMAINING ECONOMIC LEGISLATION WOULD HAVE TO BE SOUGHT FROM FRIENDLY HOUSE AND HOSTILE SENATE IN CONVENTIONAL MANNER.

4. SUBJECT TO THIS, GOA ECONOMIC POLICY DURING THE COMING YEAR WILL BE PRODUCT OF FOUR MAJOR OBJECTIVES: (1) TO CONTAIN AND REVERSE WORSENING INFLATION; (2) TO MANAGE AUSTRALIAN BALANCE OF PAYMENTS WHICH IS NOW BEGINNING LIVELY RESPONSE TO 1972-73 POLICY SHIFTS; (3) TO PRESERVE THE CURRENT FULL EMPLOYMENT LEVEL OBLIGATORY ON AUSTRALIAN - ESPECIALLY ALP - GOVERNMENTS; AND (4) TO PRESS THE COSTLY AND AMBITIOUS ALP PROGRAM OF ECONOMIC AND SOCIAL REFORM. INTERPLAY OF THESE OBJECTIVES LIKELY TO PRODUCE THE FOLLOWING THRUST IN VARIOUS MAJOR FIELDS DURING THE COMING YEAR.

5. TRADE POLICY - AUSTRALIAN IMPORT LEVELS NOW RESPONDING TO THE VIGOROUS PRO-IMPORT TARIFF AND EXCHANGE RATE POLICIES OF 1973. MEANWHILE THE REMARKABLE UP-THRUST IN VALUE OF AUSTRALIAN EXPORTS SEEMS AT LAST LARGELY SPENT AND A GENERALLY FLAT EXPORT LEVEL APPEARS MORE LIKELY OVER THE BALANCE OF THE YEAR. FIRST QUARTER 1974 OVERALL AUSTRALIAN BALANCE OF PAYMENTS DEFICIT WAS OVER \$US400 MILLION, AND RISING. REALIZATION OF THE GOA POLICY LIMITED OFFICIAL USE

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OBJECTIVE OF REVERSING THE BALANCE OF PAYMENTS SURPLUS AND STARTING TO RUN DOWN EXCESSIVE LEVEL OF RESERVES APPEARS ACCOMPLISHED. GIVEN LEAD TIMES INVOLVED GOA POLICY PLANNERS PRESUMABLY NOW DELIBERATING ON WHEN IT WILL BE APPROPRIATE TO EASE OFF PRESENT POLICIES AND BEGIN REVERSING THRUST. LOOKING AHEAD, GOA WILL FACE CHOICES AMONG PULLING BACK ON TARIFF LIBERALIZATION, DEVALUING THE \$A, RELAXING THE DE FACTO EMBARGO ON INCOMING LONG-TERM CAPITAL, OR SOME COMBINATION OF THESE

MEASURES. WHEN TIME COMES, ITS CHOICE AMONG THESE WILL PROBABLY BE INFLUENCED BY WHETHER PRESENT TIGHT LABOR SITUATION HAS EASED AND IMPORT FLOW IS BEGINNING TO HAVE EMPLOYMENT EFFECTS. WITH SUBSTANTIAL BALANCE OF PAYMENTS ADJUSTMENT NOW IN TRAIN, THE DATE FOR POSSIBLE POLICY ADJUSTMENTS OF THIS TYPE NO LONGER SO REMOTE. AT SAME TIME GOA HAS CONSIDERED IT DESIRABLE FOR IMPORT PRESSURE TO STIMULATE STRUCTURAL ADJUSTMENT IN INDUSTRY, HOPEFULLY YIELDING A MORE COMPETITIVE STRUCTURE. SO LONG AS EMPLOYMENT EFFECTS OF IMPORTS ARE WITHIN MODEST BOUNDS WHICH CAN BE CONTAINED BY TRADE ADJUSTMENT MEASURES, THIS OBJECTIVE COMBINED WITH THE GOA'S PREOCCUPATION WITH ITS INFLATION PROBLEMS WILL PROBABLY CAUSE IT TO MAINTAIN GENERALLY PRO-IMPORT POSITION. MOREOVER GOA SIMULTANEOUSLY PROJECTS SEVERAL STEPS TO STRENGTHEN EXPORTS, INCLUDING NEW EXPORT BANK, AND ADOPTION OF A NEW, ALTHOUGH MORE LIMITED EXPORT INCENTIVE SYSTEM TO REPLACE THE SYSTEM WHICH EXPIRES JUNE 30. WE SHOULD THEREFORE BE SENSITIVE TO THE POSSIBILITY OF POLICY ADJUSTMENTS IN THE MEDIUM RUN, EVEN THOUGH MAJOR CHANGES IN THE IMMEDIATE FUTURE SEEM UNLIKELY. THE PRINCIPAL EXCEPTION TO THIS STATEMENT IS THE POSSIBILITY OF ENDING THE \$US-\$A LINK, (REFTELS D AND E).

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6. INVESTMENT POLICY - WHITLAM APPARENTLY PLANS TO MOVE STEADILY AHEAD ON HIS PROGRAM TO INCREASE AUSTRALIAN OWNERSHIP OF THE ECONOMY. THIS WILL INVOLVE (1) TIGHTENED SURVEILLANCE AND STRICTER STANDARDS FOR REGULATING NEW FOREIGN INVESTMENT, (2) THE CREATION OF POSITIVE AUSTRALIAN PUBLIC INSTRUMENTS TO GENERATE AUSTRALIAN INVESTMENT IN THE ECONOMY. THE FIRST IS FORESHADOWED IN PARA 2 OF REF (B) THROUGH THE ADOPTION OF PERMANENT AND EXPANDED INVESTMENT SCREENING LEGISLATION INCLUDING THE FORMALIZATION OF RESTRICTIONS ON FOREIGN INVESTMENT IN THE FINANCE SECTOR AND REAL ESTATE. THE LATTER REQUIRES CREATION OF THE PETROLEUM AND MINERALS AUTHORITY, TO END THE PRESENT STALEMATE ON EXPLORATION, AND THE AUSTRALIAN INDUSTRY DEVELOPMENT CORPORATION ("AIDC")- NATIONAL INVESTMENT FUND TO MOBILIZE AND INVEST AUSTRALIAN CAPITAL (AND POSSIBLY FOREIGN LOAN CAPITAL UNDER AUSTRALIAN EQUITY CONTROL)

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IN EXISTING AND NEW DOMESTIC VENTURES. IF BALANCE OF PAYMENTS DEVELOPMENTS HAVE NOT OTHERWISE LED TO MODIFICATION OF THE 33 1/3 PERCENT VARIABLE RATE OF DEPOSIT REQUIREMENT WHICH NOW HOLDS OUT INCOMING LONG-TERM FOREIGN LOANS, IT IS CONCEIVABLE THAT ONE OR BOTH OF THESE NEW INSTRUMENTALITIES MIGHT RECEIVE A WAIVER OF THE VRD REQUIREMENT. THIS SELECTIVE RELAXATION WOULD IN TURN POSTPONE THE DAY WHEN THE VRD MIGHT OTHERWISE SUCCUMB TO B/P PRESSURES. THIS DOES NOT NECESSARILY MEAN HOWEVER THAT AUSTRALIAN MAJORITY OWNERSHIP WILL BE A RIGID REQUIREMENT FOR EVERY NEW INVESTMENT PROJECT. FREQUENT WHITLAM STATEMENTS HAVE REFERRED TO QTE AS HIGH AS POSSIBLE A LEVEL OF AUSTRALIAN OWNERSHIP END QTE OR SIMILAR PHRASEOLOGY. OUTSIDE OF SUCH SENSITIVE FIELDS AS ENERGY, THEREFORE, HE APPEARS TO LEAVE ROOM FOR FLEXIBILITY TO ACCOMMODATE FOREIGN OWNERSHIP WHERE IT MAY PROVE NECESSARY TO ENABLE PROJECTS OF SUFFICIENT NATIONAL IMPORTANCE TO PROCEED.

7. DOMESTIC ECONOMY - AT THIS MOMENT THE DOMESTIC ECONOMY FACES A SEVERE CREDIT SQUEEZE WITH INTEREST RATES AS HIGH AS 20 PERCENT. THIS IS PARTLY THE RESULT OF THE HEAVY RELIANCE PLACED BY THE PAST WHITLAM GOVERNMENT ON MONETARY POLICY AND THE FAILURE TO USE FISCAL POLICY OR AN EFFECTIVE INCOMES POLICY TO TAKE PART OF THE ANTI-INFLATION STRAIN. MIDWAY IN THE ELECTION CAMPAIGN THE ALP WAS FORCED BY APPARENT OPPOSITION GAINS ON THE INFLATION ISSUE TO COUNTER WITH COMMITMENTS TO ADOPT MANDATORY PRICE RESTRAINT, A BALANCED BUDGET, AND A MORE VIGOROUS FIGHT ON INFLATION. BUT IN THE SAME EXCHANGES WHITLAM PLEDGED INCOME TAX REDUCTIONS AND APPEARED TO RELY ON A HOPEFUL "TRICKLE DOWN" THEORY OF WAGE DEMAND ABATEMENT UNDER WHICH EFFECTIVE PRICE RESTRAINT WOULD

AUTOMATICALLY LEAD TO LABOR MODERATION. SINCE THE ELECTION, THE PRIME MINISTER HAS INDICATED A HARD LINE ON FEDERAL (AND ESPECIALLY FEDERALLY-FINANCED STATE EXPENDITURES) EXPENDITURES IN SUPPORT OF HIS BALANCED BUDGET PLEDGE. TO DATE NOTHING FURTHER HAS BEEN HEARD ON THE PRICE-WAGE FRONT. MEANWHILE STANDING COMMITMENTS TO PRESS EXPENSIVE SOCIAL PROGRAMS SUGGEST THAT PUBLIC SPENDING WILL PROBABLY RISE IN THE NEXT BUDGET AND THAT BUDGET BALANCING AND MODEST TAX CUTS WILL BE POSSIBLE ONLY WITHIN THE MARGIN ALLOWED BY INFLATION-INCREASED TAX REVENUES. IT IS TOO EARLY TO ASSESS HOW FAR THE HIGHER PRIORITY THE ALP ACCORDED THE INFLATION ISSUE IN THE LAST STAGE OF THE CAMPAIGN WILL BE REFLECTED IN DOMESTIC POLICIES OR WHETHER THE FINANCIAL NEEDS OF SOCIAL PROGRAMS WILL FORCE CONTINUING RELIANCE ON MONETARY AND TRADE POLICY AS AN LIMITED OFFICIAL USE

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ANTI-INFLATION PROGRAM. BUT WHITLAM'S POST-ELECTION STATEMENTS AND THE WEIGHT HE ATTACHES TO HONORING PERSONAL COMMITMENTS JUSTIFY EXPECTATIONS THAT HIS NEXT BUDGET WILL BE MORE RESPONSIVE THAN ITS PREDECESSOR TO ANTI-INFLATION OBJECTIVES.

8. ECONOMIC REFORM - MEANWHILE, HOWEVER, THE ALP WILL CERTAINLY MOVE AHEAD ON ITS DOMESTIC ECONOMIC REFORM MEASURES INCLUDING TRADE PRACTICES (ANTI-MONOPOLY), SECURITIES REGULATION, A NEW COMPANIES ACT, AND LEGISLATION TO BRING THE NON-BANK FINANCE SECTOR UNDER SOMETHING RESEMBLING THE PRESENT BANKING REGULATORY MECHANISM.

9. IN SUMMARY, THE COMING YEAR SHOULD SEE THE GOA ATTEMPTING TO ANTICIPATE THE EVOLVING AUSTRALIAN BALANCE OF PAYMENTS, FIGHT A STILL-MOUNTING INFLATION, INCREASE AUSTRALIAN CONTROL OF ITS ECONOMY AND ADVANCE AN AMBITIOUS ALP PROGRAM OF DOMESTIC ECONOMIC AND SOCIAL REFORM. ITS ECONOMIC POLICY WILL EMERGE FROM THE INTERPLAY AMONG THESE FOUR AMBITIOUS GOALS, AND WILL UNDOUBTEDLY REFLECT THIS MIXED PARENTAGE.
GREEN

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